



Office of Inspector General

MANAGEMENT LETTER:

FISCAL YEAR 1996 SELECTED ACCOUNTING OPERATIONS AND SYSTEMS AT AUSTIN FINANCE CENTER

Observations for enhancing financial operations.

Report No.: 7AF-G10-073

Date: April 4, 1997

**Office of Inspector General
Washington DC 20420**



**DEPARTMENT OF VETERANS AFFAIRS
Office of Inspector General
Washington DC 20420**

**Memorandum to the
Deputy Assistant Secretary for Financial Management (047)**

**Management Letter - Fiscal Year 1996
Selected Accounting Operations and Systems
at Austin Finance Center
Report No. 7AF-G10-073**

1. The Office of Inspector General audited selected accounting operations and systems at the Austin Finance Center as part of our audit of Department of Veterans Affairs (VA) Fiscal Year (FY) 1996 Consolidated Financial Statements. The purpose of the audit was to determine if financial information processed at this Center was reliable and whether operations complied with applicable laws and regulations.

2. We concluded that records were generally reliable for operations and transactions tested at the Austin Finance Center. However, we identified five areas where corrective action would enhance operations:

- Five employees in the Systems Support Services Division had Financial Management System (FMS) accesses inconsistent with internal control procedures requiring separation of duties. Compensating controls were not in place to protect against and detect unauthorized or accidental changes.
- User identifications in FMS should reflect each employees' current employment status. Employees transferred from one duty station to the Austin Finance Center had retained their previous user identifications.
- Manual payroll accruals at the end of each month were not reversed. This resulted in an overstatement of accrued payroll liability. Stations must reverse the accrual in order to make funds available for additional expenditures.
- Reconciliation of the Minor Construction Appropriation with U.S. Treasury records was not complete for the last two months of FY 1996. Timely reconciliation is important to identify and correct deposit and disbursement differences and to prevent differences.

- Coding errors in FMS disbursement transactions could affect the reliability of management reports.

3. The above issues did not have a material effect on the financial statements. Therefore, we are not making formal recommendations. However, we are providing our observations so that you can alert managers and staff of the areas where corrective actions would enhance operations.

4. You are not required to provide an official response to this management letter. However, we would appreciate receiving any written comments you desire to make. We will continue to monitor these issues and follow up during future financial statement audits.

5. My staff is available to provide assistance on these issues. If you wish to discuss this report or would like our assistance, please call me at (202) 565-7013, or Charles Woods at (512) 326-6216.

For the Assistant Inspector General for Auditing

JOHN E. JONSON
Director, Financial Statement Audit
Operations Division

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OBJECTIVE AND SCOPE

In accordance with the Chief Financial Officers Act of 1990, the Office of Inspector General (OIG) conducted an audit of Department of Veterans Affairs (VA) Fiscal Year (FY) 1996 Consolidated Financial Statements. As part of the audit, the OIG tested selected accounting operations and systems at the Austin Finance Center to determine if financial information processed was reliable and whether their operations complied with applicable laws and regulations.

For the Austin Center, we obtained an understanding of internal controls, assessed control risks, and tested internal controls. We also tested compliance with Office of Management and Budget (OMB) Circular A-125, *Prompt Payment Act*.

Transactions processed at the Austin Center were selected for testing due to the extensive processing of expenditure and payroll transactions for other VA facilities. The audit tests focused on accounting transactions processed through the Financial Management System (FMS) and Personnel and Accounting Integrated Data (PAID) system. FMS processed expenditures totaling about \$7.4 billion in FY 1996. The PAID payroll accrual totaled about \$480 million on September 30, 1996.

Financial Management System

Our review of FMS expenditures included audit tests to determine if:

- Authority for processing electronic transactions was limited to employees having duties requiring access, and internal control principles requiring separation of duties were in place.
- Payments were processed in compliance with the *Prompt Payment Act*.
- Disbursements were correctly recorded. Specifically, we verified the correctness of the fiscal year, fund, and budget object code.
- Payments subject to Internal Revenue Service reporting were correctly coded so that they would be identified by FMS.
- Required general ledger account reconciliations were completed.

We observed reconciliations of FMS' Major and Minor Construction Appropriations to U.S. Treasury records. Our purpose was to determine whether the Austin Finance Center compared deposits and disbursements reported by Treasury to those recorded on VA's general ledger, and whether differences were identified and investigated.

Personnel and Accounting Integrated Data

We reviewed the reasonableness of the yearend accrued payroll cost and reconciled PAID general ledgers to VA's Nationwide Trial Balance in FMS.

MANAGEMENT ADVISORY OBSERVATIONS

Access Controls For Financial Management System Data

Five employees in the System Support Services Division at the Austin Finance Center had Financial Management System (FMS) accesses authorizing them to enter, modify, and delete transactions and to modify FMS tables. This is inconsistent with internal control principles requiring separation of duties. Compensating controls that would enable independent supervisory review and monitoring of accesses by these individuals also were not in place.

Background

Sound internal control requires that only individuals with a need-to-know should be granted access to ADP systems and that assigned duties should be appropriately separated to provide checks and balances on transaction processing. If duties cannot be adequately separated, VA policy requires the activity to obtain approval of the Associate Deputy Assistant Secretary for Financial Operations and to implement compensating controls to prevent and detect the processing of unauthorized transactions.

To facilitate separation of duties, responsibility for FMS maintenance and for data entry is separated into two divisions at the Austin Finance Center: (i) Financial Services Division and (ii) Systems Support Services Division. The two separate divisions have distinctly different functions which are an important element of the Austin Finance Center internal control structure and functionally provide for separation of duties. Different sections of the Financial Services Division input receiving reports and invoice data, process payments, and make additions and changes to vendor files. The Systems Support Services Division's function is to install and maintain the hardware and software used by the Financial Services Division to perform their assigned functions.

Discussion

We reviewed FMS accesses granted to selected employees at the Austin Finance Center as of December 5, 1996. We excluded from the review personnel in those sections involved in ongoing reorganization and reassignments.

Five employees of the System Support Services Division were authorized broad accesses allowing them to modify all FMS tables and to process all FMS documents. This broad access allows these individuals to obligate transactions, set up vendor names and addresses to be paid, and to pay transactions. This does not provide adequate separation of duties as one person can accomplish a payment transaction and establish the vendor to

be paid. Additionally, the staff had access to the vendor table to enable them to modify vendor file information for field stations being consolidated into integrated facilities. Access to the vendor files should be limited to the Vendorizing Section of the Financial Services Division, and should not be given to individuals also having authority to obligate and process payments. The combination of the three accesses allows one person to initiate and accomplish payments.

The Chief of Systems Development and Maintenance Service, a unit of the System Support Services Division, stated the accesses were necessary in the event FMS processing unexpectedly terminated during nightly processing. Members of her staff would then be called into the Austin Finance Center to modify tables or delete transactions to restart processing.

Additionally, the five individuals with incompatible accesses had not been reported to the Associate Deputy Assistant Secretary for Financial Operations as required and a compensating control, such as a system log to document and track accesses by these individuals, was not operational.

Action Taken

On March 18, 1997, we discussed the condition with the Associate Director of the Systems Support Services Division, the Chief of the Systems Development and Maintenance Service, and the Austin Finance Center's ADP Security Officer. As a result of our review, access to the vendor table for the five employees was terminated. The Associate Director agreed that his personnel should not be able to establish vendors and stated that this authority would cease.

For the five employees with access to all FMS transactions, the Associate Director agreed to develop an exception report for their user IDs. The report would document any transactions accomplished by these employees. It would be retained in the System Support Services Division and would be available for inspection by Austin Finance Center Management and OIG. This exception report should provide a compensating control and audit trail to document accesses by these individuals. The Associate Director also stated that the names of individuals having accesses allowing them to both obligate and pay would be reported to the Associate Deputy Assistant Secretary for Financial Operations as required.

Financial Management System User Identifications

Our review of Austin Finance Center FMS accesses included evaluation of the FMS security profile table, referred to as 'STAB.' This table shows an individual's authorization to initiate or modify financial transactions. The STAB included two VA Central Office (VACO) user identifications (IDs) for employees who had transferred to the Austin Finance Center. One of these had both a VACO and an Austin Finance Center user ID. As a result of our review, the VACO user IDs for these employees were terminated.

Accrued Payroll Liability

The yearend payroll accrual was overstated approximately \$1.3 million in FMS because accruals were not reversed in several instances. Appropriations and funds affected were Medical Care Cost Recovery, National Cemetery, General Operating Expense, Medical Care, Medical and Prosthetic Research, Major Construction, and Minor Construction.

Payroll accruals are made at the end of each accounting month by an interface with the PAID system and by manual journal entries. The entries from the PAID interface are recorded automatically and reverse in the following month. Manual journal entries, called standard vouchers (SV), are used to adjust the PAID system generated accrual. These SV entries do not automatically reverse. Each SV entry related to a payroll accrual must be individually coded to reverse by entering a reversal period on the FMS header table or by setting the reversal indicator to "Y" on the recurring entry table.

Austin Finance Center should remind all field stations to reverse all payroll accrual adjustments processed using SV's following the end of each month.

Reconciliation of Minor Construction Fund with U.S. Treasury

Reconciliations between U.S. Treasury reports and VA's FMS transactions for the Minor Construction Appropriation were not completed for the last two months of FY 1996. The differences were approximately \$319,000 in August and \$275,000 in September. Complete reconciliations are an important internal control for detecting errors.

Monthly reconciliation of differences are required by Treasury Financial Manual Volume I, Chapter 2-3300, and VA policy in MP-4, Part V, Chapter 4, Paragraph B. Timely reconciliation is important because differences are charged to a clearing account and the funds are not available for agency use until recorded in the correct account.

Coding Disbursement Transactions

Our analysis of a sample of 200 FMS disbursement transactions identified 3 or more coding or processing errors in the following categories:

- Incorrect budget object code was charged.
- Transaction code used was inappropriate for the type of service or product.
- Payment discrepancies regarding interest payable (e.g., incorrect amount of interest caused by erroneous FMS dates, and early and late payments resulting from wrong vendor types) were noted.
- Form 1099 was not automatically generated by FMS.
- Contractor certifications for construction progress payments were not obtained before issuing or approving payments.
- FMS was not used to compute due dates on payments for household goods shipments.
- Payments were charged to the wrong fiscal year.

We noted one other instance where a station issued a GELCO draft for an invoice amount when the station had not received everything on the bill. In addition, there were two payments in the sample that were not supported by a vendor invoice.

These coding errors did not affect the accuracy of the financial statements. However, they do affect the data reliability of other management reports such as payment history, interest paid, prompt payment, Form 1099, expenditures by cost center, cost by budget object code, and vendor listings. External reporting of informational Form 1099 to the Internal Revenue Service is also affected.

Corrective Action

The Austin Finance Center should inform field stations of these errors and request that they emphasize accuracy when processing all accounting transactions.

FINAL REPORT DISTRIBUTION

Assistant Secretary for Management (004)

Deputy Assistant Secretary for Financial Management (047)

Associate Deputy Assistant Secretary for Financial Operations (047F)

Associate Deputy Assistant Secretary for Financial Policy (047G)

Veterans Health Administration, Chief Financial Officer (17)

Director, Office of Management Controls (004B)

Deputy Assistant Secretary for Public Affairs (80)

Director, Austin Finance Center (104/00)